LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7351 | **NOTE PREPARED:** Jan 13, 2003
BILL NUMBER: HB 1693 | **BILL AMENDED:**

SUBJECT: Small business job creation tax credits.

FIRST AUTHOR: Rep. Ripley | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State
DEDICATED
FEDERAL

Summary of Legislation: The bill provides a credit against state tax liability for small manufacturers who create at least ten new full-time jobs at a site located in Indiana. The bill provides that the amount of the credit is determined by multiplying the incremental income tax withholdings attributable to the new jobs by 30%. The bill provides that the credit may not exceed 30% of the taxpayer's state tax liability.

Effective Date: January 1, 2004.

Explanation of State Expenditures: *Summary:* Under the bill, the Department of State Revenue would revise forms, instructions and computer programs in order to incorporate the small business job creation tax credit. These administrative expenditures should be absorbable within the Department's existing budget.

Explanation of State Revenues: *Summary:* Under the bill, state revenues would be reduced by an indeterminable amount. With an effective date of January 1, 2004, state revenues would most likely be affected for half of FY 2004 and beyond. Under the bill, a taxpayer would be able to claim a credit equal to 30% of the total incremental income tax withholdings attributable to new full-time jobs in a taxable year.

The credit could be taken against the taxpayer's Adjusted Gross Income, Insurance Premiums, or Financial Institution Tax liability.

A taxpayer may only claim the credit if at least ten new full-time jobs are created in a taxable year at a manufacturing site that has less than 100 employees. The credit may not be claimed by a taxpayer creating a new job with a worker that has relocated from one employment site to another within Indiana.

The amount of credit awarded to a qualified taxpayer may not exceed 30% of the taxpayer's state tax liability per year.

Additionally, a taxpayer may only claim the credit if the average wage paid by a taxpayer exceeds the countywide average.

Background: US Bureau of Census survey estimates from 2000 indicate that Indiana had 110,398 firms and 115,115 establishments with less than 100 employees. The amount of these firms and establishments that are in the manufacturing sector are estimated at 5,700 and 5,800 respectively.

The CY2001 Indiana non-farm wage and salary disbursement per worker was $31,085. The CY2000 average annual pay for Indiana compiled by the US Bureau of Labor Statistics was $31,015. As an example, assuming an employer hired ten new full-time employees at $31,085 per worker, the minimum average credit would be approximately ($31,085 * 3.4% * 30% * 10 = $3,200.) If 187 taxpayers with a state tax liability of $10,700 or more qualified for the minimum average credit in a taxable year, state revenues could be reduced by $600,000 per year.

NOTE: The US Bureau of Census defines business firm as a business organization consisting of one or more domestic establishments in the same state and industry that were specified under common ownership or control. The firm and the establishment are the same for single-establishment firms. For each multi-establishment firm, establishments in the same industry within a state will be counted as one firm- the firm employment and annual payroll are summed from the associated establishments.

The Bureau defines a business establishment as a single physical location where business is conducted or where services or industrial operations are performed.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: US Bureau of Census; US Bureau of Economic Analysis.

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